

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-09 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14 USIA-12 T-03

EB-11 COME-00 INT-08 OEP-01 XMB-07 OMB-01 TRSE-00

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R 160435 Z MAR 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6018

INFO AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 3191

DEPT PLEASE PASS EXIM BANK

HONG KONG FOR KEARNS AND RAND

E. O. 11652: XGDS-1 DECLAS DECEMBER 30, 1979

TAGS: ENRG, EFIN, EMIN, ID

SUBJECT: PETROLEUM: TOUR D' HORIZON WITH GENERAL IBNU SUTOWO

REFS: (A) IBNU- AMBASSADOR MEMCON, JANAUARY 23, 1973 (NOTAL)

(B) JAKARTA 2856 (NOTAL); (C) JAKARTA 2973

1. SUMMARY: DURING WIDE- RANGING CONVERSATION MARCH 9, PERTAMINA PRESIDENT DIRECTOR IBNU SUTOWO MADE PITCH FOR MORE SYMPATHETIC APPROACH TO PERTAMINA' S INVESTMENT PROGRAM, DISCUSSED GOI PLANS FOR WHAT COULD BE \$700 MILLION STEEL MILL PROJECT, OUTLINED ECONOMICS OF PROPOSED LNG PROJECTS, AND GAVE VIEWS ON PETROCHEMICALS. IBNU' S COMMENTS INDICATED HE IS AWARE OF RESTRAINTS, IS PREPARED TO CO-EXIST WITH THEM BUT THAT THERE MUST BE UNDERSTANDING OF PERTAMINA' S ROLE THAT WILL MAKE IT POSSIBLE FOR HIM TO MAKE GOOD ON DEMANDS LEVIED BY PRESIDENT SUHARTO. END SUMMARY

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2. DURING A LUNCH AT THE RESIDENCE ON MARCH 9, WHICH I ARRANGED AT REQUEST OF GENERAL IBNU, HE, I, WIJARSO (DIRECTOR OIL AND GAS) AND TWO EMBOFFS DISCUSSED A WIDE RANGE OF SUBJECTS. IN OUR PREVIOUS MEETING IN LATE JANUARY (REF A), I HAD PROBED GENERAL IBNU' S ATTITUDE TOWARD BORROWING CONTROL IMPOSED BY AGREEMTN BETWEEN THE IMF AND THE GOI AND FOUND HIM IF ANYTHING DEFANTLY UNCOOPERATIVE. SINCE THEN LINES HAD BEEN DRAWN AND MANY WITHIN THE GOI WERE ATTEMPTING TO SCRUTINIZE AND IF POSSIBLE TO CONTROL PERTAMINA' S FINANCIAL OPERATIONS. I WAS CURIOUS WHETHER GENERAL IBNU WOULD QUESTION THE ROLE WE HAD PLAYED IN THIS UNFOLDING DRAMA. IN THE EVENT HE WAS THE SOUL OF AFFABILITY, APPARENTLY SEEKING MY UNDERSTANDING AND SUPPORT.

3. OPENING CONVERSATION, GENERAL IBNU TALKED ABOUT HIS RECENT VISIT TO THE US, EUROPE AND JAPAN. IN DISCUSSING TECHNICAL ASPECTS OF GETTING FROM ONE PLACE TO ANOTHER, IBNU SAID IT WAS PARTICULARLY DIFFICULT TO OBTAIN LANDING RIGHTS FOR PRIVATE AIRCRAFT IN TOKYO. HE MENTIONED THAT HE MADE HIS RECENT TRIP ON A GULFSTREAM II THAT BELONGS TO SINGAPORE BUSINESSMAN ROBIN LOH, RATHER THAN TO PERTIMINA (REF A), WHICH AVAILABLE FOR PERTAMINA CHARTER ON COST BASIS.

4. STEEL - IN RESPONSE TO A QUESTION ABOUT GOI PLANS FOR SECOND STAGE DEVELOPMENT CILEGON STEEL PROJECT (REFTTEL B), GENERAL IBNU SAID THAT HE IS NOW DISCUSSING WITH VARIOUS COMPANIES, AT GOI REQUEST, VARIOUS PROJECTS (REFTTEL B) WHICH COULD REQUIRE \$700 MILLION INVESTMENT. JUST HOW, WHEN, AND BY WHOM SECOND STAGE PROGRAM TO BE UNDERTAKEN WILL DEPEND ON OUTCOME DISCUSSIONS AND PRESIDENTIAL DECISION. PRESIDENT WOULD ALSO HAVE TO DECIDE IF CILEGON PROJECT WOULD BE PROFIT- ORIENTED INVOLVING JOINT VENTURES OR SERVICE- ORIENTED AND UNDERTAKEN SOLELY BY STATE COMPANIES. IN MEANTIME, PERTAMINA HAS PURCHASED ALL LAND (SEVERAL THOUSAND HECTARES) BETWEEN CILEGON SITE AND SUNDA STRAITS. PERTAMINA INTENDS TO BEGIN NATURAL GAS EXPLORATION PROGRAM IN CILEGON AREA AND AROUND JAKARTA LATER THIS YEAR TO IDENTIFY POTENTIAL FUEL SOURCES FOR PROJECT. HE SEEMED CONFIDENT REQUIRED GAS WOULD BE FORTHCOMING; HE SAID " THE GAS IS THERE".

5. PERTAMINA' S INVESTMENT PROGRAM - GENERAL IBNU TOUCHED ON SOME OF THE BIG PROJECTS HE HAS TO ACCOMPLISH AT THE DIRECTION OF PRESIDENT SUHARTO. IN RELAXED AND UNCONTROVERSIAL STYLE, HE TOOK POSITION THAT EITHER (B) THE GOI SHOULD NOT ASK HIM TO UNDERTAKE CONFIDENTIAL

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NUMEROUS PROJECTS (REFINERIES, LNG PROJECTS, ETC.) WITHIN PREDE-

TERMINED UNREALISTIC MEDIUM- TERM BORROWING LIMITS WITHOUT SPECIFY-
ING PRIORITIES, OR (B) GOI SHOULD GIVE HIM MAXIMUM FLEXIBILITY
WITH NO BORROWING LIMITATIONS TO UNDERTAKE NECESSARY PROJECTS.
IBNU, CLEARLY PREFERRING LATTER APPROACH, POINTED TO SELF- LIQUID-
ATING AND FOREIGN EXCHANGE EARNING OR SAVING VALUE OF PROJECTS IN
JUSTIFYING BORROWING REQUIRED. I AGREED THAT SOME MODIFICATIONS IN
THE STANDBY CEILING WERE PROBABLY NECESSARY NOW THAT CONCES-
SIONAL FINANCING IS NO LONGER ADEQUATE TO MEET ALL OF INDONESIA' S
INVESTMENT NEEDS. AT SAME TIME, I STRESSED IT WAS ESPECIALLY
IMPORTANT THAT THE GOI AND INTERESTED
GOVERNMENTS BE FULLY AWARE OF THE MAGNITUDE THESE PROJECTS AND
HOW
PETROLEUM SECTOR BORROWINGS FIT INTO TOTAL DEBT PICTURE.

6. IBNU ADVISED THAT IN FACT HE IS DOCUMENTING INVESTMENT PRO-
FILE FOR PERTAMINA' S FINANCING REQUIREMENTS THROUGH 1976, INCLUDING
CASH FLOW AND EARNINGS PROJECTTIONS, WHICH HE INTENDS TO
SUBMIT TO PRESIDENT SUHARTO AND PERTAMINA' SBOARD OF COMMISSIONERS.
HE EXPECTS PERTAMINA BORROWING REQUIREMENTS TO TAPER OFF SHARPLY
AFTER 1976 UNLESS MAJOR PETROCHEMICAL INVESTMENTS ARE REQUIRED
(SEE PARA 7). IBNU EXPRESSED RECOGNITION THAT PERTAMINA WOULD
HAVE TO GIVE MORE INFORMATION ON ITS INVSTMENT AND FINANCING
PLANS THAT WAS REQUIRED IN PAST. HE VOLUNTEERED THAT BORROWINGS
SHOULD BE FOR GOOD AND PRODUCTIVE PURPOSES THAT PRODUCE FOREIGN
EXCHANGE AND REVENUES FOR GOVERNMENT WITHIN PERIOD OF LOAN
REPAYMENT AND NOT FOR CONSUMPTION. HE ALSO NOTED THAT BANKERS
WILL NOT LEND WITHOUT GOOD FINANCIAL STATEMENTS AND PROJECT
JUSTIFICATIONS.

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-09 L-03

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INFO AMCONSUL HONG KONG
AMCONSUL MEDAN
AMCONSUL SURABAYA
AMEMBASSY TOKYO

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7. PETROCHEMICALS - GENERAL IBNU SAID THAT WHETHER OTHER MAJOR PROJECTS ARE UNDERTAKEN IN NEXT FEW YEARS DEPENDS PRIMARILY ON DECISIONS TO BE MADE CONCERNING INVESTMENT IN PETROCHEMICAL PROJECTS. HE ADDED THAT WHILE ON FACE OF IT, INDONESIA SHOULD DEVELOP PETROCHEMICALS CAPABILITY OUTCOME OF UNIDO/ JAPAN GASOLINE CO. STUDY NOW UNDERWAY WILL INFLUENCE FINAL DECISION. IBNU POINTED OUT IT IS IMPOSSIBLE TO PREDICT ACCURATELY DEMAND FOR SYNTHETICS IN DEVELOPING COUNTRIES, BUT HE FELT PL480 COTTON WOULD NOT ALWAYS BE AVAILABLE AND THAT INDONESIA MIGHT HAVE TO DEPEND MORE ON SYNTHETICS TO CLOTHE ITS PEOPLE.

8. LNG - GENERAL IBNU REPORTED THAT EVEN THOUGH JAPANESE HAD OFFERED BETTER FINANCING TERMS AND PRICE FOR LNG (REFTEL C), HE IS LEANING TOWARD JAPANESE FOR FINANCING AND PURCHASE OF HUFFCO LNG IN EAST KALIMANTAN AND US FOR FINANCING AND PURCHASE OF MOBIL LNG IN NORTH SUMATRA. HE EXPRESSED CONCERN THAT GIVEN PRESENT OFFERS NET PRICE FOR LNG SALES TO U. S. WOULD BE AT LEAST 10 CENTS PER 1,000 CUBIC FT. BELOW THAT FROM JAPAN. EVEN THOUGH U. S. BUYERS WERE OFFERING ABOUT 25 CENTS PER 1,000 CUBIC FT. CIF MORE THAN JAPAN, FREIGHT DIFFERENTIAL OF BCP CENTS MORE THAN OFFSET THIS. WHILE LOAN AND PRICING TERMS APPEARED LESS FAVORABLE FROM U. S.,
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HE STILL HAD TO CONSIDER ALL OTHER FACTORS INCLUDING POSSIBLE DIFFERENCES IN COST OF PROJECT AS BETWEEN JAPAN AND U. S. WHICH COULD CHANGE PICTURE. ACCORDING TO IBNU, RETURN TO GOI OVER FIRST 15 YEARS FOR EACH PROJECT WOULD BE ABOUT ONE BILLION DOLLARS AND TWO BILLION DOLLARS OVER FIVE YEARS BEYOND THAT. IBNU SAID IT IS LIKELY THAT ONE COMPANY WOULD OWN AND OPERATE ALL LNG CARRIERS FOR BOTH PROJECTS. IBNU SAID NATURAL GAS PROJECTS IN IRIAN JAYA (WEST IRIAN) CONTRACT AREA NOW BEING DRILLED BY TESORO OIL CO. ARE VERY PROMISING. HE POINTED OUT LNG EXPORTS FROM EASTERN INDONESIA WOULD REDUCE CONSIDERABLY TRANSPORT COST TO U. S.

9. EXIM - GENERAL IBNU SAID THAT HE HAD ASKED PERTAMINA'S CHIEF FINANCIAL OFFICER JOHN NIZAR TO CONTACT EMBOFF REGARDING NEXT STEP IN PURSUING APPLICATIONS FOR EXIM LOAN. HE SAID HE ALSO INTENDS TO DESIGNATE FINANCE OFFICER TO PARTICIPATE EXIM TRAINING COURSE.

10. COMMENT - GENERAL IBNU APPEARED RELAXED AND CONFIDENT DURING LUNCH AND VISIT AFTERWARDS TO SITE NEW INDONESIA PETROLEUM CLUB.

IN STARK CONTRAST TO STRONGLY DEFENSIVE AND SELF- JUSTIFYING
MOOD OF IBNU REMARKS TO ME IN JANUARY, HIS COMMENTS AT
LUNCH GAVE INDICATIONS THAT HE REALIZES RESTRAINTS AND IS PREPARED
TO COEXIST WITH THEM. HIS MOOD WAS CHEERFUL AND GOOD- NATURED.
YET HE MADE HIS MESSAGE CLEAR-- RESTRAINTS HE FACES MUST BE
RESOLVED IN WAY THAT PERMIT PERTAMINA TO MAKE GOOD ON DEMANDS
AND AMBITIONS OUTLINED BY PRESIDENT SUHARTO.
GALBRAITH

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